



0000012177

Phoenix, Arizona 85012-2794

P.O. Box 36379

Phoenix, Arizona 85067-6379

Telephone 602-640-9000

Facsimile 602-640-9050

A PROFESSIONAL ASSOCIATION
ATTORNEYS AT LAW

www.osbornmaledon.com

ORIGINAL

Joan S. Burke

Direct Phone 602.640.9356

Direct Fax 602.640.6074

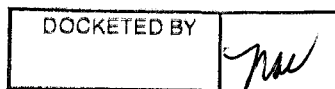
jsburke@omlaw.com

March 21, 2001

Arizona Corporation Commission

DOCKETED

MAR 21 2001



Chairman William A. Mundell
 Commissioner Jim Irvin
 Commissioner Marc Spitzer
 Arizona Corporation Commission
 1200 West Washington Street
 Phoenix, Arizona 85012

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Re: AT&T Comments on Proposed Settlement Agreement
 Docket No. T-01051B-99-0105

Dear Commissioners:

The Proposed Order and Settlement Agreement, incorporating Commissioner Spitzer's Revised Proposed Amendment No. 3, decreases the proposed Qwest revenue requirement by \$19.9 million, and allows Qwest the opportunity to earn \$17.4 million more from flexibly priced services. AT&T submits that by reducing the Qwest revenue requirement in this manner, the Commission is not targeting the reduction in a manner that benefits Arizona consumers. Indeed, Arizona rate-payers do not benefit from the revenue requirement reduction and the true impact of the reduction on Qwest revenues is difficult to quantify given the \$17.4 million increase allowed for basket 3 competitive services. For this reason, AT&T opposes the Proposed Order and proposes instead that the Commission dedicate at least a portion of the revenue requirement reduction to a decrease in switched access rates.

This letter addresses why, as an initial matter, the Commission should be reluctant to approve any settlement that increases Qwest's revenue requirement and then explains why it makes sense to decrease switched access rates if a reduction in the revenue requirement is ordered.

1. The Proposed Revenue Requirement Is Too High

RUCO, AT&T and the Department of Defense each filed testimony in this proceeding demonstrating that Qwest was over-earning at a rate of \$40 to \$200 million each year. Many, if not most, of the adjustments to the revenue requirement

recommended by intervenors are not reflected in the proposed order. Indeed, Staff frankly admitted that "a handful of specifically identified adjustments" were vigorously negotiated, and the remaining proposed adjustments were not given "line-by-line" scrutiny. AT&T submits that allowing Qwest a rate increase without carefully scrutinizing all arguments favoring a rate decrease is a mistake. What follows are a few specific examples supporting additional reductions to the Qwest revenue requirement.

a. Removal of LNP Investment and Expenses

By order dated July 9, 1999, the FCC approved a federal charge for the recovery of costs associated with implementation of local number portability ("LNP").¹ In so doing, the FCC narrowly defined what costs were eligible for recovery and how those costs could be recovered.

Prior to the FCC's order, US WEST admitted that its LNP costs were included in its intrastate revenue requirement and further admitted that approximately \$341 million in total company LNP investment and expenses (1996-1998) would be accounted for and recovered in the normal course of business in the intrastate jurisdiction. (See U S WEST response to UTI data request 13-023.) Qwest continues to claim that costs for LNP implementation may be recovered from the intrastate jurisdiction. This is incorrect. As the FCC explained in its Memorandum and Opinion and Order, the implementation of LNP was a interstate mandated program and costs associated with it must be assigned to the interstate, not the intrastate, jurisdiction. LNP FCC Order ¶¶ 95-97. The fact that Qwest is claiming LNP implementation costs in its intrastate rate base, suggests that Qwest improperly performed the separations analysis. Proper allocation of LNP investment costs would result in a 40.6 million dollar rate base reduction and a 6.6 million dollar reduction in Qwest expenses.

b. Directory Assistance

Witnesses in this case, including Staff's own witness, submitted testimony that the value of fees and services received by USWC from DEX was understated by at least \$50 million. (Brosch Surrebuttal Testimony, p. 9.) The method used by Staff's witness to calculate the proper imputation for directory assistance fees and costs complied with the Settlement Agreement and with *U S WEST Communications, Inc. v. The Arizona Corporation Commission*, 185 Ariz. 277, 915 P.2d 1232 (App. 1996) ("*US WEST v. ACC*"). At a minimum, this case should be remanded for a hearing on what fees and services provided by DEX should be imputed to Qwest. The Settlement Agreement, and *U S WEST v. ACC* in no way limit the Commission's authority (or legal obligation) to carefully review the value of fees and services received by Qwest from its directory assistance publisher.

¹ In the Matter of Long-Term Number Portability Tariff Filings – U S WEST Communications, Inc. CC Docket No. 99-35, Memorandum Opinion and Order, FCC 99-169, July 9, 1999 ("LNP FCC Order").

c. Interconnection

Qwest has included in its rate base interconnection costs (extraordinary and nonrecurring start-up costs) associated with facilitating competition. These costs are the subject of separate proceedings designed to evaluate the cost and pricing evidence associated with the services Qwest provides to its competitors. Removal of these costs from the Qwest rate base would result in a 74 million dollar reduction in the revenue requirement.

2. Access Charges

The proposed decrease in the Qwest revenue requirement should incorporate a proportionate reduction in switched access rates. Such a reduction would directly and immediately benefit Arizona consumers. It defies common sense that a Phoenix resident must pay between 14 and 30 cents a minute to call Payson, but just a nickel a minute to call New York. Smart consumers are now in the habit of picking up their wireless phones – while when sitting beside their home telephone – to use cheaper wireless minutes to make in-state long distance calls. Consumers who cannot afford wireless calling plans, particularly rural Arizonans who frequently make in-state long distance calls, are disproportionately impacted by the inflated price of intrastate long distance.

The chasm between interstate and intrastate rates is caused almost entirely by the inflated access charges levied on intrastate minutes. The current Qwest intrastate switched access rate in Arizona is 4.5 cents per access minute of use (“amou”). On a conversation minute of use (“cmou”) basis, this is approximately 9 cents a minute. Contrast this with the target of 0.55 cent paid to Qwest for interstate switched access rate per amou (based on the Coalition for Affordable Local and Long Distance Services (“CALLS”) Order). As a result of these high access charges, intrastate long distance costs at least three times more than interstate long distance. The Telecommunications Act of 1996 (“Act”) requires that subsidies be explicit and that prices for telecommunications be just, reasonable and cost-based. 47 U.S.C. § 254(e). Arizona intrastate access charges amount to implicit subsidies to the local service provider and are priced far above actual cost.

In 1998, the Commission heard and decided an intrastate access complaint brought by MCI Telecommunications Corporation. In the Matter of MCI Telecommunications Corp. vs. U S WEST Communications, Inc. Regarding Intrastate Access Charges, Docket No. T-01051B-97-200 (Decision No. 60596). In dismissing that complaint on U S WEST’s motion, the Commission offered the following:

“While the Commission agrees there is a need to review the level at which access charges are set, we cannot change

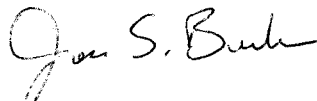
those cost levels without consideration of the overall impact of any rate change upon the rate of return on the fair value rate base of U S WEST. Consequently, the access charges which were determined to be just and reasonable as part of Decision No. 58927 will need to be reviewed as part of a U S WEST rate case."

This rate case provides the Commission with an important opportunity to significantly reduce access charges. The reduction in switched access agreed to by the Staff and Qwest comes nowhere near decreasing switched access to forward looking economic cost, nor do the reductions bring intrastate access charges anywhere near interstate access rates.

AT&T submits that the Commission could better serve Arizona consumers by dedicating a portion of the revenue requirement reduction to reduce switched access. AT&T has committed to flow-through intrastate access rate reductions to consumers. As the Settlement Proposal and Order are currently drafted, Qwest realizes a partial benefit from the revenue requirement reduction because the headroom in basket three is increased. In contrast, if access rates are reduced as a result of the revenue requirement reduction, Arizona consumers will realize a tangible and direct benefit.

Immediately after the March 7, 2001, Open Meeting, AT&T asked Qwest to double the amount of the access reduction currently identified in Basket 2, thereby allowing \$30 million in access reductions over the three year term of the plan. Qwest refused this proposal and has made no counter-proposal. AT&T now requests that the Commission, on its own motion, amend the proposed Settlement Agreement and Order to provide for additional access reduction.

Very truly yours,

A handwritten signature in dark ink, appearing to read "Joan S. Burke". The signature is fluid and cursive, with the first name "Joan" written in a larger, more prominent script than the last name "Burke".

Joan S. Burke

JSB:adg
367059

cc: All Parties of Record